2018

Review of Piedmont Natural Gas Company's Gas Rate Stabilization Act Monitoring Report

SOUTH CAROLINA OFFICE OF REGULATORY STAFF

Review of Piedmont Natural Gas Company's Gas Rate Stabilization Act Monitoring Report for the period ending March 31, 2018

Pursuant to S.C. Code Ann. Sections 58-5-430 and 58-5-440

August 31, 2018

South Carolina Office of Regulatory Staff

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Introduction

On February 16, 2005, the Natural Gas Rate Stabilization Act ("RSA"), S.C. Code Ann. § 58-5-400, was signed into law. The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the RSA, conducted an examination of Piedmont Natural Gas Company's ("Piedmont" or "the Company") Monitoring Report for the twelve-month period ended March 31, 2018 ("Review Period"). The examination was conducted for the purpose of determining the Company's compliance with the provisions of the RSA.

Pursuant to the RSA, the Company must file Monitoring Reports with the Public Service Commission of South Carolina ("Commission") and the ORS on or before June fifteenth. In Docket No. 2018-7-G, Piedmont filed its Monitoring Report with the Commission on June 15, 2018 ("Request"). The Company reported in its March 31, 2018 Monitoring Report an adjusted rate of return and return on common equity of 8.24% and 11.41%, respectively. The Company's calculation of revenue requirements totaled a reduction of ($5,686,837), consisting of a $3,504,044 margin increase, a ($7,456,682) margin reduction associated with the 2017 Tax Cuts and Jobs Act ("Tax Act"), and a ($1,734,199) decrease for demand cost over-recovery.

In accordance with the RSA, ORS's audit reports are provided to the Commission, the Company, and made available to all interested parties no later than September first. ORS's review of Piedmont's Monitoring Report focuses on the Company's adherence to the RSA and applicable Commission Orders. This report details the results of ORS's examination.

RSA Rates History

In accordance with the guidelines of the RSA, the Company is entitled to an adjustment in rates sufficient to achieve a return on common equity as set by previous Commission Order, currently 12.60%. Table 1 shows the requested and approved changes granted for several prior RSA filings and a comparison to the current filing.

Table 1:

Docket No.	Order No.	Amount Requested	ORS Proposed Revenue	Amount Granted	Approved Return on Equity	Rates Effective
2014-7-G	2014-822	($2,620,770)	($2,419,417)	($7,084,417)	10.20%	11/1/2014
2015-7-G	2015-732	$8,994,755	$8,688,604	$3,898,604	10.20%	11/1/2015
2016-7-G	2016-705	$14,910,332	$12,727,664	$7,655,078	10.20%	11/1/2016
2017-7-G	2017-624	$17,552,834	$12,094,357	$5,829,357	10.20%	11/1/2017
2018-7-G	TBD	($5,686,837)	($13,643,555)	TBD	12.60%	11/1/2018

ORS Review

ORS examines the operating experience reported by the Company for the Review Period together with the associated revenue requirement calculations. The results of ORS's examination of the Monitoring Report and the underlying financial records through March 31, 2017, are contained in **Schedule 1**.

Schedule 1 presents the Company's operating experience, rate base and rates of return for the Review Period, and the accounting and pro forma adjustments which ORS has determined are necessary to normalize the Company's operations.

Utilizing the per book rate base of $342,936,612, and income of $31,387,358, a rate of return was calculated on per book operations, and actual capital structure of 9.15% with a corresponding return on common equity of 13.66%. ORS accounting and pro forma adjustments increased operating income to $32,166,583, and decreased rate base to $341,156,970. The return on common equity computed by ORS after accounting and pro forma adjustments was 14.22%. After the adjustments for the proposed margin decrease of ($4,451,624), a margin decrease of ($7,056,972) associated with the Tax Act, and a decrease for demand cost over-recovery of ($2,134,959), operating income decreased to $29,418,324. The rate of return on rate base computed by ORS after the adjustments for the proposed margin decrease, Tax Act decrease, and demand cost over-recovery is 8.62% with a corresponding return on common equity of 12.60%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS recommends for the Company's Monitoring Report to conform to S.C. Code Ann. §§ 58-5-430 and 58-5-440. For comparative purposes, the adjustments of both the Company and ORS are presented on Schedule 2 with further clarification on major adjustments below.

Conservation Adjustment

Piedmont calculated the weather normalized billing units, or therms, and applied a 2% therm reduction noted as a "conservation adjustment." ORS removed the conservation adjustment for purposes of calculating the impacts to the Company's operations. The Company's Energy Efficiency Program approved in Docket No. 2009-411-G does not contain a provision for cost recovery of a conservation adjustment, lost revenue or an incentive. The ORS adjustment resulted in adjustments to Sales Revenue (ORS Schedule 2, adjustment 1), Cost of Gas (ORS Schedule 2, adjustment 2), and Demand Cost Over-Recovery (ORS Schedule 2, adjustment 22).

WS Lee Revenue

In November 2017, Piedmont completed construction on the natural gas pipeline to Duke Energy Carolina's ("DEC") WS Lee Combined Cycle facility. Upon completion of the pipeline, Piedmont increased the annual contract amounts to be paid by DEC for the pipeline. During the current review period, the revised contract amount was not included as a pro-forma revenue adjustment by the Company. At the same time, the higher costs of completion were included in plant in service and depreciation expenses. ORS made an adjustment to increase revenues from DEC to the going level rate in order to more accurately align costs with revenues in the current RSA review. An adjustment of $1,150,512 was made and is included in ORS Schedule 2, adjustment 1.

Employee Incentive Plans

ORS has made adjustments to remove 50% of the Company's expensed short term and long-term incentive plans. One of the primary criteria for the employee incentives is based on the Company achieving various earnings metrics. The ORS adjustment ensures shareholders are responsible for bonuses structured to attain earnings goals.

Piedmont also capitalizes a portion of bonuses directly related to an employee's salary for work on utility plant. Based on the information received from the Company, ORS was unable to reduce employee incentives included in plant-in-service. ORS requests the Commission require the Company, in future RSA filings, to record employee incentives capitalized as plant-in-service in an account other than Net Plant in Service such that employee incentives can be reviewed annually by ORS.

Non-allowable Expenses for Rate Making Purposes

ORS's review and examination of operations and maintenance expenses resulted in adjustments for non-allowable expenses which total ($2,942,039). The majority of the ORS adjustment is due to the Company's inability to provide sufficient documentation for transactions. Below is a description of the categories of non-allowable expenses identified by ORS.

- Piedmont agreed expense non-allowable – Non-allowable expenses Piedmont designated.

- No supporting documentation – Expenses ORS selected for testing for which the Company did not provide any support.
- Insufficient documentation – Expenses ORS selected for testing for which the Company did not provide adequate support. Items were disallowed due to no list of attendees on sign-in sheet, no clear business purpose on agenda, no itemized receipt, no source documents other than voucher request, invoice provided does not agree to general ledger detail and unsigned contract/letter from third party.
- Memberships to non-professional organizations – Cost of memberships not directly related to gas operations and 50% of Chamber of Commerce expenditures.
- Incorrectly charged to South Carolina Gas Operations – Expenses improperly allocated to South Carolina Gas Operations.
- Lavish Expenses – Expenses not considered necessary for ratemaking such as refreshments and meals for internal meetings and internal trainings.
- Parties, Awards, Gifts, Flowers, Etc. – Expenses associated with retirement parties and appreciation events.
- Test Period Lobbying expenses – Expenses associated with the Company's lobbying efforts.

Table 2 provides a summary of ORS adjustment 3i found on Schedule 2.

Table 2: Non-allowable Expense Summary

Category	Total
Piedmont Agreed Expense Non-Allowable	$318,144
No Supporting Documentation	$2,469,703
Insufficient Documentation Provided	$15,775
Memberships to Non-Professional Organizations	$4,615
Incorrectly Charged to SC Gas Ops	$1,540
Lavish Expenses	$103,499
Test Period Lobbying Expenses	$27,576
Parties, Awards, Gifts, Flowers, Etc.	$1,187
Grand Total	$2,942,039

Capital Structure

S.C. Code Ann. § 58-5-440 contains requirements for the March Monitoring Report and states, "(1) if the utility's earnings exceed the upper end of the range established in the order, the utility shall calculate the reduction in revenue required to lower its return on equity to the midpoint of the range established in the order; or (2) if the utility's earnings are below the lower range established in the order, the utility shall calculate the additional revenue required to increase its return on equity to the midpoint of the range established in the order." The range is 12.10% to 13.10% with a midpoint of 12.60% return on equity.

The Company made their RSA filing utilizing a hypothetical, or pro-forma capital structure consisting of a 47% Long-Term Debt to 53% Equity ratio. ORS recommends the use of the Company's actual capital structure, resulting in a 50.15% Long-Term Debt to 49.85% Equity ratio.

Schedule 3 presents the calculation of the weighted cost of capital used by Piedmont in calculating its return on common equity both before and after its adjustments for the proposed increase. The rate base, as shown on Schedule 1, is allocated between long-term debt and common equity using the Company's actual capital structure. The amount of total income for return necessary, after pro forma adjustments, to cover an embedded cost rate of 4.67% on long-term debt is computed to be $7,989,913. The remaining $24,176,670 of income for return is associated with common equity, yielding a return on equity of 14.22%. The cost of capital after accounting and pro forma adjustments prior to the proposed increase is 9.43%. The cost of capital after the proposed increase is 8.62%.

Tax Cuts and Jobs Act

In a letter dated January 24, 2018 filed in Docket No. 2017-381-A, Piedmont stated it would include the necessary pro forma adjustments in the RSA filing to reflect the impact of the Tax Act. Piedmont proposed adjustments to annualize the excess deferred income tax impact, normalize test year revenues for the impact of the tax reserve estimate and annualize the current federal income tax rate. ORS does not propose further adjustments to the Company's calculations.

Excess Income Tax

After the Tax Act was passed into law, the Company's federal income tax rate decreased from 35% to 21%. From January 1, 2018 through October 31, 2018 the Company will have collected revenues from customers based on a 35% federal income tax rate. The Company calculated the value of excess tax revenue collected from January 1, 2018 through March 31, 2018 as $2,914,423. This amount will be returned to customers as a rate decrement beginning November 1, 2018. ORS does not propose any adjustment to the method in which the Company has calculated the excess revenue of $2,914,423; however, the fallout adjustment per-therm will change based on the therm adjustment ORS proposed associated with the Conservation Adjustment.

The next RSA period will incorporate the remaining balance of the excess tax revenue collected from April 1, 2018 through October 31, 2018 to be returned to customers from November 1, 2019 through October 31, 2020.

Excess Deferred Income Taxes

The Company calculated the value of the Excess Deferred Income Taxes ("EDIT") which was created by the Tax Act's reduction of the federal income tax rate from 35% to 21% reducing expected future income tax payments. The South Carolina total of the EDIT is approximately $28,881,116 and included as a reduction to the Company's rate base. The Company has proposed to split the EDIT into three categories to be amortized and returned to rate payers over varying lives. The first category is related to protected property plant and equipment, which is to be returned utilizing the Average Rate Assumption Method described in the Tax Act. The second category is related to unprotected property, plant and equipment, which the Company has proposed to be amortized and returned to customers over twenty years. The third category is unprotected deferred taxes not related to property plant and equipment, which the Company has proposed to be amortized and returned to customers over five years.

The total annual amortization of the unprotected and protected EDIT is approximately $920,556 (ORS Schedule 2, adjustment 18a) and is included in Column 4A of Schedule 1. ORS does not propose an adjustment to the amortization lives, or the categories as proposed by the Company, though the number will change annually based on the two and three state allocators for certain EDIT until the balances are fully amortized.

Current Federal Taxes

In an effort to provide additional clarity to the impact on current taxes of the Tax Act, Piedmont and ORS have made their Accounting and Pro forma Adjustment (Column 2 of Schedule 1) at the 35% federal tax rate in effect for the majority of the Test Year. Column 4 of Schedule 1 provides the margin increase necessary to bring the Company to the approved ROE of 12.60% at 35% federal tax rate. Column 4A of Schedule 1 brings the Company's current federal income tax down to the 21% for purposes of calculating final revenues. The change in federal income taxes from 35% to 21% results in a reduction to Federal Income Taxes of approximately ($5,778,851) (ORS Schedule 1, adjustment 21).

Rate Design and Allocation of Additional Revenue

S.C. Code Ann. § 58-5-440 states, "The proposed rate changes, filed by the utility, shall conform as nearly as is practicable with the revenue allocation principles contained in the most recent rate order." ORS has reviewed and agrees that the Company's proposed tariffs conform as nearly as practicable with the revenue allocation principles set out in the Company's most recent rate order, which is Commission Order No. 2002-761 in Docket No. 2002-63-G. If the Commission approves the findings of ORS's examination, the Company would then apply the change in revenue amount in proportion to the Company's Request using the same criteria. ORS will verify the new rates generate the approved revenue change.

Revenue Verification

ORS verified the approved rates for April 1, 2017 through March 31, 2018 reflect actual revenues generated during the Review Period. ORS utilized the approved rates in effect at the time the Monitoring Report was filed to obtain the annualized revenues. ORS utilized the rate schedules effective November 1, 2017, and a pro-forma adjustment to revenue and expenses for the cost of gas as reflected in the Company's most recent Gas Cost Recovery Mechanism.

ORS verified the proposed revised tariffs in Schedule 2 of Piedmont's filing will have the following effects. A margin revenue reduction of ($3,952,638) comprised of the adjustment for proposed margin (Piedmont Schedule 7, adjustment 11) and the adjustments for the 2017 Tax Act (Piedmont Schedule 7, adjustment 17), a demand revenue reduction of ($1,734,199) (Piedmont

Schedule 7, adjustment 22), and ($2,914,697) for the special decrement related to excess tax collections.

ORS's review determined the retail revenue target reduction is as follows. A margin revenue reduction of ($11,508,596) comprised of the adjustment for proposed margin (ORS Schedule 1, adjustment 11) and the adjustments for the 2017 Tax Act (ORS Schedule 1, adjustment 17), a demand revenue reduction of ($2,134,959) (ORS Schedule 1, adjustment 22), and ($2,914,697) for the special decrement related to excess tax collections.

ORS increased the Company's proposed revenue reduction by ($7,956,718) or 139.91%. The results of ORS's examination are shown on Schedule 1.

Conclusions

ORS reviewed Piedmont's Monitoring Report and conducted an examination of the Company's books and records. ORS recommends the following revenue and rate impacts: a margin revenue reduction of ($11,508,596) comprised of ($4,451,624) Proposed Margin, and ($7,056,972) Adjustments for the Tax Act; a demand revenue reduction of ($2,134,959) for Cost of Gas – Demand; and rate decrement of ($2,914,697) for the excess income tax collections.

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Office of Regulatory Staff

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Schedule 1

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve-Month Period Ended March 31, 2018
Docket No. 2018-7-G

		(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments		(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Decrease		(4A) Adjustments for 2017 Tax Act		(5) Adjustments for Demand Cost Under(Over) Recovery		(6) Total After Proposed Rates
	Operating Revenues											
1	Sale and Transportation of Gas	$ 160,372,960	$ 271,263	(1)	$ 160,644,223	$ (4,451,624)	(11)	$ (7,056,972)	(17)	$ (2,134,959)	(22)	$ 147,000,668
2	Other Operating Revenues	687,112	0		687,112	0		0		0		687,112
3	Total Operating Revenues	161,060,072	271,263		161,331,335	(4,451,624)		(7,056,972)		(2,134,959)		147,687,780
	Operating Expenses											
4	Cost of Gas	72,167,684	(5,342,292)	(2)	66,825,392	0		0		(2,118,799)	(23)	64,706,593
5	Operations and Maintenance	30,221,417	(3,860,260)	(3)	26,361,157	(11,112)	(12)	(938,171)	(18)	(5,329)	(24)	25,406,545
6	Depreciation	13,024,590	1,735,365	(4)	14,759,955	0		0		0		14,759,955
7	General Taxes	7,017,387	(63,784)	(5)	6,953,603	(22,583)	(13)	(35,800)	(19)	(10,831)	(25)	6,884,389
8	State Income Taxes	(759,238)	2,696,410	(6)	1,937,172	(220,897)	(14)	(304,150)	(20)	0		1,412,125
9	Federal Income Taxes	8,549,869	4,332,323	(7)	12,882,192	(1,468,961)	(15)	(5,778,851)	(21)	0		5,634,380
10	Amortization of Investment Tax Credits	(18,535)	0		(18,535)	0		0		0		(18,535)
11	**Total Operating Expenses**	130,203,174	(502,238)		129,700,936	(1,723,553)		(7,056,972)		(2,134,959)		118,785,452
12	**Net Operating Income**	30,856,898	773,501		31,630,399	(2,728,071)		0		0		28,902,328
13	Interest on Customers' Deposits	(75,284)	0		(75,284)	0		0		0		(75,284)
14	Amortization of Debt Redemption Premium	0	0	(8)	0	0		0		0		0
15	Allowance for Funds Used During Construction	377,403	0		377,403	0		0		0		377,403
16	Customer Growth	228,341	5,724	(9)	234,065	(20,188)	(16)	0		0		213,877
17	**Net Operating Income for Return**	$ 31,387,358	$ 779,225		$ 32,166,583	$ (2,748,259)		0		$ 0		$ 29,418,324

		(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments		(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Decrease	(4A) Adjustments for 2017 Tax Act	(5) Adjustments for Demand Cost Under(Over) Recovery	(6) Total After Proposed Rates
	Rate Base:								
18	Plant in Service	$ 624,060,903	$ 0		$ 624,060,903				$ 624,060,903
19	Accumulated Depreciation	(233,405,970)	0		(233,405,970)				(233,405,970)
20	Net Plant in Service	390,654,933	0		390,654,933				390,654,933
	Add:								
21	Construction Work in Progress	29,910,156	0		29,910,156				29,910,156
22	Materials and Supplies	7,126,250	0		7,126,250				7,126,250
23	Cash Working Capital	5,103,233	(1,779,642)	(10)	3,323,591				3,323,591
	Deduct:								
24	Customers' Advances	0	0		0				0
25	Customers' Deposits	2,278,666	0		2,278,666				2,278,666
26	Accumulated Deferred Income Taxes	87,463,111	0		87,463,111				87,463,111
27	Unclaimed Funds	116,183	0		116,183				116,183
28	**Total Rate Base:**	$ 342,936,612	$ (1,779,642)		$ 341,156,970				$ 341,156,970
29	**Rate of Return**	9.15%			9.43%				8.62%
30	**Return on Common Equity**	13.66%			14.22%				12.60%

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2018
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Line No.		Description		Per Piedmont		Per ORS
1		**Operating Revenues - Sale and Transportation of Gas**				
		To adjust revenues on a going-level basis.	$	(3,209,090)	$	271,263
		Total Operating Revenues - Sale and Transportation of Gas	$	(3,209,090)	$	271,263
2		**Cost of Gas**				
		To adjust cost of gas on a going-level basis.	$	(6,492,809)	$	(5,342,292)
		Total Cost of Gas	$	(6,492,809)	$	(5,342,292)
3		**Operations and Maintenance Expenses**				
	a.	To adjust payroll expense to the going-level basis.	$	269,768	$	251,612
	b.	To adjust expenses for the employee retirement and welfare benefits.		(524,160)		(507,150)
	c.	To adjust uncollectible gas margin utilizing the applicable uncollectible rate of .24961%.		(15,896)		(7,212)
	d.	To decrease expenses for allocations to non-utility activities.		(14,661)		(14,661)
	e.	To decrease expenses for equity incentive plans (formerly LTIP).		(99,023)		(262,650)
	f.	To decrease expenses for the short term incentive (formerly MVP & STIP).		(11,247)		(815,822)
	g.	To adjust expenses for lease adjustments.		666,701		378,394
	h.	To adjust expenses for the South Carolina assessment fee.		(19,451)		(31,613)
	i.	To decrease expenses for non-allowables for ratemaking purposes.		(437,597)		(2,942,039)
	j.	To adjust expenses for Gas Technology Institute (GTI) expense.		0		0
	k.	To adjust expenses for amortization of SC environmental expense.		121,024		118,041
	l.	To adjust lease allocation expense for leases booked to corporate that should have been allocated to the appropriate states.		(27,160)		(27,160)
		Total Operations and Maintenance Expense	$	(91,702)	$	(3,860,260)

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Line No.		Description		Per Piedmont		Per ORS
4		**Depreciation Expense**				
		To adjust depreciation expense on a going-level basis using the most current depreciation study rates.	$	1,735,365	$	1,735,365
		Total Depreciation Expense	$	1,735,365	$	1,735,365
5		**General Taxes**				
	a.	To allocate the appropriate amount of property tax applicable to South Carolina operations.	$	(1,137)	$	(1,137)
	b.	To adjust payroll tax expense.	$	9,066	$	(64,023)
	c.	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .2072986%) for the adjustment made to revenues on a going-level basis.	$	(16,686)	$	1,376
		Total General Taxes	$	(8,757)	$	(63,784)
6		**State Income Taxes**				
		To adjust state income taxes (rate of 5%) to reflect the impact on income for accounting and pro forma adjustments.	$	2,413,315	$	2,696,410
		Total State Income Taxes	$	2,413,315	$	2,696,410
7		**Federal Income Taxes**				
		To adjust federal income taxes (rate of 35%) to reflect the impact on income for accounting and pro forma adjustments.	$	2,449,740	$	4,332,323
		Total Federal Income Taxes	$	2,449,740	$	4,332,323
8		**Amortization of Debt Redemption Premium**				
		To adjust net operating income for amortization of debt redemption premium.	$	0	$	0
		Total Amortization of Debt Redemption Premium	$	0	$	0
9		**Customer Growth**				
		To adjust net operating income to reflect an anticipated increase in customer growth (rate of .74%) for the adjustments to operating revenues and expenses.	$	(23,785)	$	5,724
		Total Customer Growth	$	(23,785)	$	5,724

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Line No.		Description	Per Piedmont	Per ORS
10		**Cash Working Capital**		
	a.	To decrease average tax accruals to zero due to a positive balance as of March 31, 2018.	(1,182,040)	(1,182,040)
	b.	To adjust cash working capital to reflect the pro forma adjustments to operation and maintenance expenses (rate of 12.5%).	$ (126,532)	$ (597,602)
		Total Cash Working Capital	$ (1,308,572)	$ (1,779,642)
11		**Operating Revenues - Sale and Transportation of Gas**		
		To adjust revenues from the sale and transportation of gas for the proposed margin decrease. ORS has recalculated this adjustment utilizing all ORS adjustments to operating experience.	$ 3,504,044	$ (4,451,624)
		Total Operating Revenues - Sale and Transportation of Gas	$ 3,504,044	$ (4,451,624)
12		**Operations and Maintenance Expenses**		
		To adjust the provision for uncollectible accounts (.24961%) for the proposed margin decrease.	$ 8,746	$ (11,112)
		Total Operations and Maintenance Expenses	$ 8,746	$ (11,112)
13		**General Taxes**		
		To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .2072986%) for the proposed margin decrease.	$ 18,220	$ (22,583)
		Total General Taxes	$ 18,220	$ (22,583)
14		**State Income Taxes**		
		To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin decrease.	$ 173,854	$ (220,897)
		Total State Income Taxes	$ 173,854	$ (220,897)
15		**Federal Income Taxes**		
		To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin decrease.	$ 1,156,128	$ (1,468,961)
		Total Federal Income Taxes	$ 1,156,128	$ (1,468,961)

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Line No.		Description	Per Piedmont	Per ORS
16		**Customer Growth**		
		To adjust net operating income to reflect an anticipated customer growth (rate of .74%) for the proposed margin decrease.	$ 15,889	$ (20,188)
		Total Customer Growth	$ 15,889	$ (20,188)
17		**Operating Revenues - Sale and Transportation of Gas**		
		To decrease the revenue requirement for the sale and transportation of gas due to the impacts of the 2017 Tax Cuts and Jobs Act.	$ (7,456,682)	$ (7,056,972)
		Total Operating Revenues - Sale and Transportation of Gas	$ (7,456,682)	$ (7,056,972)
18		**Operations and Maintenance Expense**		
	a.	To decrease expenses for the 2017 tax reform EDIT giveback to customers.	$ (920,556)	$ (920,556)
	b.	To decrease the provision for uncollectible accounts (rate of .24961%) following adjustment 17.	(18,612)	(17,615)
		Total Operations and Maintenance Expense	$ (939,168)	$ (938,171)
19		**General Taxes**		
		To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .2072986%) for the adjustment to revenue for the 2017 Tax Cuts and Jobs Act.	$ (38,773)	$ (35,800)
		Total General Taxes	$ (38,773)	$ (35,800)
20		**State Income Taxes**		
		To adjust state income taxes (rate of 5%) to reflect the impact on income from adjustments 17 through 19.	$ (323,938)	$ (304,150)
		Total State Income Taxes	$ (323,938)	$ (304,150)
21		**Federal Income Taxes**		
		To adjust federal income taxes (rate of 21%) to reflect the impact on income from adjustments 17 through 20.	$ (6,154,803)	$ (5,778,851)
		Total Federal Income Taxes	$ (6,154,803)	$ (5,778,851)
22		**Operating Revenues - Sale and Transportation of Gas**		
		To decrease the revenue requirement for the sale and transportation of gas associated with demand cost over-recovery.	$ (1,734,199)	$ (2,134,959)
		Total Operating Revenues - Sale and Transportation of Gas	$ (1,734,199)	$ (2,134,959)

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Line No.	Description	Per Piedmont	Per ORS
23	**Cost of Gas**		
	To decrease cost of gas for the demand cost over-recovery.	$ (1,718,197)	$ (2,118,799)
	Total Cost of Gas	$ (1,718,197)	$ (2,118,799)
24	**Operations and Maintenance Expenses**		
	To decrease the provision for uncollectible accounts (rate of .24961%) following adjustment 22.	$ (6,999)	$ (5,329)
	Total Operations and Maintenance Expenses	$ (6,999)	$ (5,329)
25	**General Taxes**		
	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .2072986%) following adjustment 22.	$ (9,003)	$ (10,831)
	Total General Taxes	$ (9,003)	$ (10,831)

Piedmont Natural Gas Company
South Carolina Operations
Weighted Cost of Capital
For the Twelve-Month Period Ended March 31, 2018
Docket No. 2018-7-G

Schedule 3

			Regulatory Per Books				ORS As Adjusted				After Proposed Rates			
Description	**Capital Structure**	**Ratio**	**Rate Base**	**Embedded Cost/Return**	**Overall Cost/Return**	**Income For Return**	**Rate Base**	**Embedded Cost/Return**	**Overall Cost/Return**	**Income For Return**	**Rate Base**	**Embedded Cost/Return**	**Overall Cost/Return**	**Income For Return**
Long-Term Debt	1,783,158,316	50.15%	171,982,711	4.67%	2.34%	8,031,593	171,090,220	4.67%	2.34%	7,989,913	171,090,220	4.67%	2.34%	7,989,913
Common Equity	1,772,714,547	49.85%	170,953,901	13.66%	6.81%	23,355,765	170,066,750	14.22%	7.09%	24,176,670	170,066,750	12.60%	6.28%	21,428,411
Total	3,555,872,863	100.00%	342,936,612		9.15%	31,387,358	341,156,970		9.43%	32,166,583	341,156,970		8.62%	29,418,324